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# WEEKLY SUMMARY



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**SECRET****H I G H L I G H T S**

**The final collapse of the Chinese National Government's military strength has been staved off temporarily by a desperate stand on the part of the Nationalist forces in the Hsuehou area. This local success, unexpected even by Nationalist leaders, will gain the National Government some respite while the Communist forces mass themselves for a more powerful assault (see page 10). However, it remains likely that the Communists will succeed in their effort to contain and by-pass Hsuehou and that a subsequent Communist drive on Nanking will probably force the National Government to evacuate the capital or accept Communist surrender terms. In anticipation of the early fall of Nanking, individual Nationalist officials are presently seeking solutions which will enable them to retain some influence following Chiang Kai-shek's departure (see page 10).**

**The recently headlined "peace offensive" of the Soviet Union is belied by continued Soviet-Communist pressure in western Europe, Iran, Japan, and China (see page 2). These expansionist maneuvers make it clear that any appearance of "softening" by the USSR should be regarded as a temporary tactical adjustment and not the first phase of a sweeping revision of Soviet policy toward the west.**

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**SECRET****THE KREMLIN "PEACE OFFENSIVE"**

Despite the recently headlined Kremlin "peace offensive," continued Soviet-Communist pressures and expansion in various parts of the world indicate that any "softening" by the Soviet Union should be regarded only as a temporary tactical adjustment and not as a prelude to a sweeping revision of Soviet policy toward the west. The USSR apparently now intends to exploit the US refusal to engage in bilateral negotiations on Germany as a further example of US insincerity in the quest for world peace.

**Western Europe** Soviet pressure continues unabated in western Europe. In France, the Communist-dominated General Confederation of Labor, which called the still unsettled coal strike and which is campaigning for rotation strikes in other industries, admitted publicly that groups of miners in the USSR and its Satellites were providing funds to finance idle strikers. In the western zones of Germany, the Communists are organizing youth and factory cells in preparation for increased agitation. In Austria, Soviet occupation authorities recently sought to counteract slowly improving economic conditions by demanding another allotment of locomotives and rolling stock as war booty. This action, combined with recent Soviet success in intimidating Austrian officials by arresting a number of Austrian citizens, may lead Austria to waver in its cooperation with the western powers.

**Near East** The return of Soviet Ambassador Sadchikov to Tehran may presage a renewed campaign against the US arms program and US military missions in Iran. The latest incident in the Soviet "war of nerves" is the occupation by the USSR of a strip of territory claimed by Iran and located along the Soviet border east of the Caspian Sea. Soviet pressure

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**SECRET****"PEACE OFFENSIVE"**

will probably be restricted to demands for an oil concession in Iran and repeated charges that US military aid violates the 1921 Soviet-Iranian Treaty of Friendship.

**Japan** As a part of expanding operations in the Far East, the USSR has increased its activity and interest in Japanese affairs. Molotov's recent reiteration of Kremlin interest in the early conclusion of a Japanese peace treaty may be the beginning of a propaganda campaign designed to harass US occupation authorities. In late September, the USSR again requested that "those powers most interested" be authorized by the Far Eastern Commission to exercise international controls over Japanese industry which would extend beyond those established by a formal peace treaty. The Soviet member of the Allied Council for Japan has also been sharply critical of both the Japanese Government and SCAP during the past three months. As one measure of Soviet intent in the Far East, radio transmitting facilities of several Siberian broadcasting stations beaming propaganda to Japan have been strengthened so that virtually any standard Japanese radio set can pick up the signal.

**China** Advance propaganda announcements by prominent Chinese Communists suggest that the USSR is preparing the way for more active participation in Chinese affairs. In the most recent announcement, Liu Shao-chi, member of the Chinese Communist Central Committee, attempted in a radio commentary to prove that Chinese patriotism was not incompatible with "proletarian internationalism." Although the philosophical subtleties of Liu's reasoning will largely escape the rank and file of Chinese Communists, this public acknowledgment of Soviet primacy in the conduct of local Communist Party affairs probably represents the beginning of a Soviet-sponsored "educational" campaign to prepare the Chinese for a dominating role by the USSR in China.

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**SECRET****UNITED NATIONS**

**Berlin Dispute** The Lie-Evatt appeal for the resumption of four-power talks on Berlin, despite its apparent conciliatory attitude toward the USSR, was designed primarily to focus attention once more on the gravity of the Berlin deadlock and thus set the stage for a new compromise proposal by the SC neutrals. If the neutrals can devise a ready-made currency plan to be put into effect simultaneously with the lifting of the blockade, the USSR will be unable to base its objections, as it did in the first proposal of the neutral nations, on the lack of "simultaneity." By depriving the USSR of this technical excuse for blocking settlement of the Berlin problem, such a proposal will somewhat improve chances for four-power agreement. On the other hand, if the USSR should veto any new proposal which provided for adequate four-power control of the Berlin currency, the Kremlin's real intentions in Berlin would be unmasked.

**Korean Case** The UN General Assembly will now probably recognize the Rhee regime in South Korea as the national Korean government. Small-power opposition to Soviet tactics is stiffening and the USSR has little chance of gaining GA recognition of the Communist government in North Korea. Rather than approve a possible Soviet compromise proposal for federation of the northern and southern regimes, the GA is likely to order the return of a UN commission to Korea charged with responsibility for seeking a formula for the incorporation of North Korea into the UN-recognized national government. Such a commission would also act as a deterrent to Communist violence. UN handling of the Korean problem may be further complicated by Soviet propaganda exploitation of a probable request by the South Korean Government or a friendly power for retention of US occupation troops until the South Korean military establishment is capable of withstanding Communist pressures from the north or from a Communist China.

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**W E S T E R N   E U R O P E**

**FRANCE**

**Gaullist Advance**    A further retreat of the French Third Force in the face of the Gaullist advance will be marked in the near future either by the collapse of the Queuille Government (which will probably occur before 15 December) or by a shift to the Right in the composition of the French Cabinet. De Gaulle's Rally of the French People (RPF), which is now in an excellent position for exerting pressure upon the Government, will launch an intensive campaign in the French legislature for immediate dissolution of the Assembly and new national elections. Simultaneously, in an effort to strengthen the Gaullist claim that a strong executive is needed now, the RPF will play up the Government's failure to end the coal strike, its unsuccessful efforts to reach agreement with non-Communist labor concerning wages and prices, and its inability to forestall the recently-announced plan for German trusteeship of Ruhr industries. Gaullist chances of success in this campaign to return De Gaulle to power will be made greater by the inability of Third Force components to reach common ground on controversial issues.

**Ruhr Fears**    The recent US-UK decision on the Ruhr will probably prove a source of political embarrassment to the French Government for some time to come. Frenchmen of all political views will continue to protest Anglo-American policies aimed at restoration of Germany, especially any measures which will enlarge the industrial capacity of the Ruhr. The French have always maintained that close international control should be exercised over both production and distribution in the Ruhr, and they are not likely to be satisfied by US and UK assurances that French security interests will be safeguarded by international control



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**GERMANY**

**Political Apathy** Completion of a draft constitution for a west German government continues to be delayed by the apathy of the German political leaders currently meeting at Bonn. This apathy is caused in part by uncertainty concerning the amount of authority the occupying powers will delegate to the new German government. Moreover, in addition to playing for time while awaiting the outcome of the struggle between the western powers and the USSR, Socialist and Christian Democratic leaders seem more interested in maneuvering for position than in reaching agreement on the constitution. Meanwhile, the preoccupation of the German people with the deteriorating economic situation has lessened popular pressure on the constitutional delegates to complete their work.

**SPAIN**

**Political Changes** Important modifications in the structure and policies of the Franco regime may follow recent political assignments and rumors of Cabinet shifts. Although sweeping changes in the present regime are by no means imminent, the removal of several prominent Falangists from political office suggests that Franco is making

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### **SPAIN**

a serious effort further to reduce the power of the Falange and is currying favor with the Monarchists. Militant "old line" Falangists, who are bitterly resentful, may retaliate by instigating sporadic disorders, possibly in connection with the municipal elections scheduled for 21 and 28 November and for 12 December.

### **SCANDINAVIA**

**Mutual Defense**    Prospects for a mutual defense agreement binding Norway, Denmark, and Sweden now appear doubtful, although some progress has been made in current discussions for military cooperation on a technical level. Swedish military men are busily talking neutrality and trying to convince Norway and Denmark that Sweden alone is strong enough to discourage Soviet aggression. Norway and Denmark, however, still believe that neutrality is impossible and prefer an agreement which would not exclude them from a future North Atlantic pact.

### **BELGIUM**

**Cabinet Resignation**    The Spaak Cabinet resignation on 19 November, which appears to have been a deliberate show-down similar to Premier Spaak's resignation in May 1948, will probably once again result in the re-formation of a Socialist-Catholic coalition government without recourse to general elections. Although Spaak may not return as premier, he will probably continue as Foreign Minister. This government crisis may be followed by others, but no important changes in the domestic or foreign policies of Belgium are expected until after the general elections tentatively scheduled to take place in the late fall of 1949.

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**PALESTINE**

**Possible Hostilities**    The possibility of further hostilities in Palestine is still present. The Security Council in its resolution of 4 November called upon the Jews to withdraw from the Negeb. Instead of enforcing this directive, however, the SC in its 16 November resolution called upon the belligerents to negotiate an armistice that would provide for a demilitarized area between the Jewish and Arab forces (see map).

Such back-tracking has convinced the Jews that the SC is powerless to deprive them of their territorial gains, and they have refused to withdraw completely from the Negeb. The British, fearing that this defiance of the SC may presage aggression against their ally Transjordan, are stockpiling materiel in that country. The Jews may denounce this action by the UK as a truce violation and thus seek to justify a new offensive against the Arab forces still in Palestine. On the other hand, the continued presence of Israeli troops in southern Lebanon (which has, in effect, been disregarded by the SC) may provoke desperate retaliatory action by Lebanese and Syrian forces reportedly massing in the area. Even if the Arabs and Jews should open peace negotiations, either directly or through the UN Mediator, the Jews would probably demand more concessions than the Arabs would grant and would then again resort to force in order to obtain their objectives.

**CYPRUS**

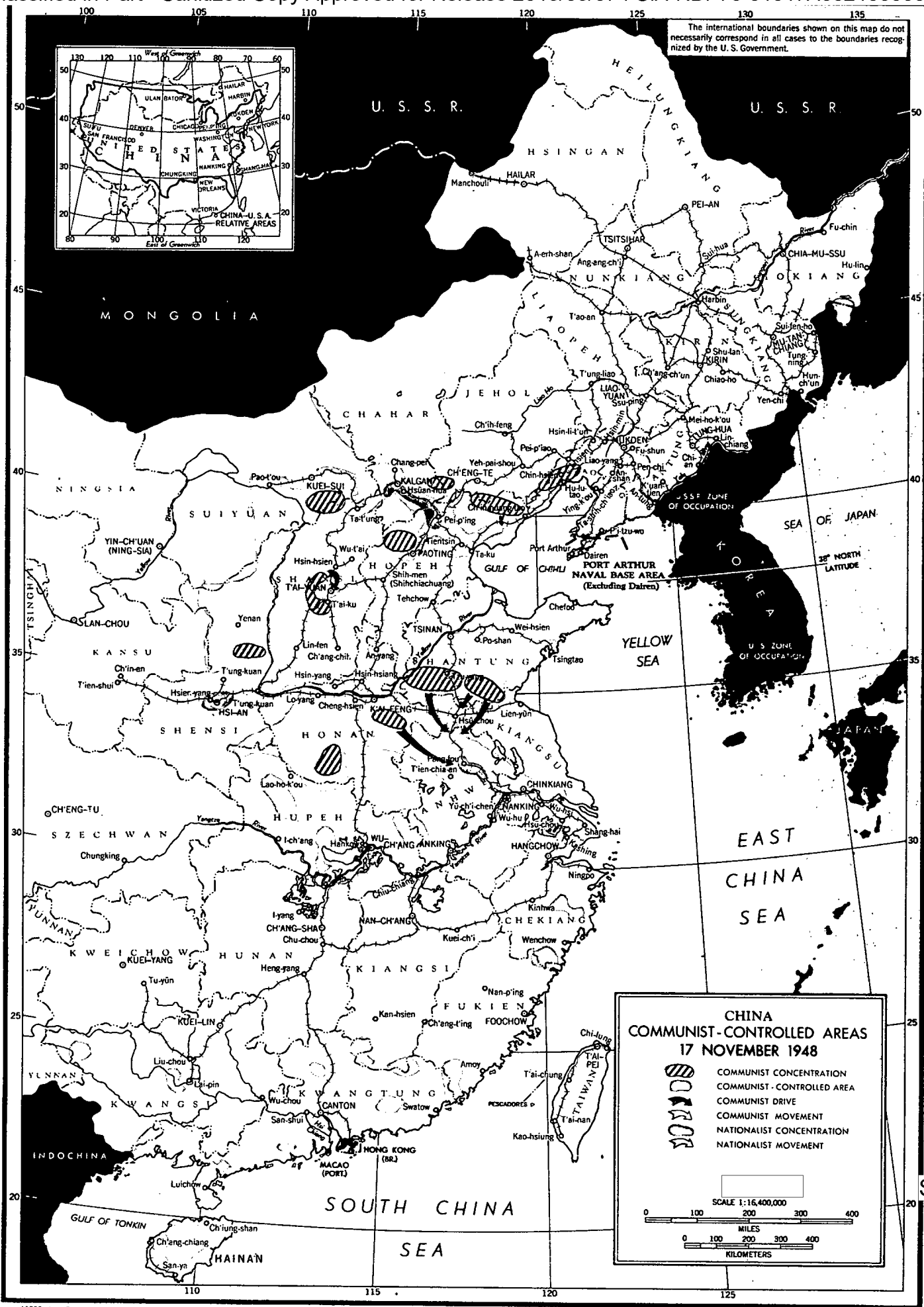
**Communist Activity**    The increased intensity and violence of Communist activity in Cyprus is causing some concern among the formerly sanguine British authorities there. A dangerously large number of the elected

**SECRET****CYPRUS**

local government officials of the island are members of the Communist Party of Cyprus (AKEL). Although AKEL was defeated in its first test strike last year, the Communists renewed their efforts to gain control over the island's labor movement with a building trades strike, begun in August 1948. This strike, which has been marked by violent intimidation of non-striking workers and by the dynamiting of valuable commercial and military establishments, has delayed construction of UK military installations and of a US monitoring station. In addition to its labor drive, AKEL has become increasingly bold in its financial support of the Markos forces in Greece and has intensified its agitation for self-government for Cyprus.

The British security position (only 4,500 British troops are currently stationed on Cyprus) is threatened by: (1) a Communist mobilization potential of 15,000-20,000 men equipped with small arms and explosives; and (2) approximately 11,000 able-bodied Jewish internees now confined on the island. The political situation is complicated by the strong desire of the non-Communist portion of the population for union with Greece. The former Governor of Cyprus, who had done little to control the Communists, was recently recalled to report to the Colonial Office and subsequently resigned. Although it has been rumored that the British are considering the outlawing of the Communists as the next step for strengthening British security on the island, they have taken no adequate security measures to date.

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**SECRET****F A R E A S T****CHINA**

**Future Government**    An increasing number of Nationalist officials who expect an early Communist victory in China are actively seeking a solution which would enable them to retain some influence in a post-Chiang Kai-shek China. Certain Nationalist elements, in an effort to enlist US support for peace and for a coalition government, propose that joint US-Soviet mediation would provide the ideal solution for China. Others argue that if Chiang is deposed, a more liberal Nationalist government--with continued US support--could keep the Communists north of the Yangtze River. Meanwhile, such anti-Communists as T. V. Soong continue to bid for US aid by exaggerating their ability to form a government in South China capable of becoming a nucleus through which the US could continue its support of anti-Communist elements. The Communists, however, will probably insist upon a pseudo-coalition government which would include representatives of all dissident Chinese elements. Such a tactic would enable the new Communist regime to maintain that it was a government representing all China and thus present a facade of unity and legality to the UN and the world.

**Military Situation**    Desperate efforts by the Nationalist forces in the Hsuehou area, combined with unusually effective support from the National Air Force, have apparently staved off temporarily the Communist drive on Hsuehou and have won a short respite for the National Government. Communist forces in the area have temporarily withdrawn, apparently in order to regroup for a more powerful assault on Hsuehou. Although both the Nationalist and Communist forces appear to have suffered considerable casualties in this first phase of the battle for Central China, the Communists are still capable of taking

**SECRET****CHINA**

or by-passing Hsuehou and subsequently driving on Nanking. Such a drive, whenever Communist leaders decide to undertake it, will probably force the Nationalist Government to evacuate or to accept Communist surrender terms with little or no resistance. In North China, the Nationalists will probably be unable to resist the Communist forces which appear to be massing for attacks on the Kailan mines and in the Peiping-Tientsin area. Moreover, the appointment of General Fu Tso-yi as chief of all military operations in North China suggests that Chiang Kai-shek can no longer maintain his personal authority over regional leaders in the face of the deteriorating military situation.

**Communist Attitude** In an effort presumably directed toward gaining eventual international recognition of a Communist-dominated regime in China, Communist authorities in Mukden have been initially cooperative toward the US Consulate General. Also, the Mayor of Mukden has stated that the Communists desire trade relations with the US. This relatively amiable attitude may reflect local conditions alone and may only last long enough for the Communists to consolidate their control of China. It is possible, however, that some of the Communist leaders hope to maintain permanently amicable relations with the US in order to avoid complete dependence upon the USSR.



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